

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 958 - SB 955

March 12, 2021

SUMMARY OF BILL: Adds equipment for soil testing, soil carbon sequestration, regenerative farming practices, organic farming, conservation farming, reforestation and tree seedlings as exempt from sales and use tax for persons with an agricultural certificate of exemption. Expands eligibility to the Tennessee Agricultural Enhancement Program (TAEP) grants to farms with at least 50 acres of row crop production if the applicant engages in soil carbon sequestration, regenerative farming practices, organic farming, or other conservation farming practices.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact –

Exceeds \$57,800/FY21-22 and Subsequent Years/General Fund

Increase State Expenditures –

**Exceeds \$19,000/FY21-22 and Subsequent Years/
Agricultural Enhancement Program**

Decrease Local Revenue – Net Impact – Exceeds \$23,600/FY21-22 and Subsequent Years

Assumptions:

Agricultural certificate of exemption:

- Tennessee Code Annotated § 67-6-207 currently exempts various equipment and materials related to farming.
- According to the Department of Agriculture's website, in 2012 the Forestry Division served approximately 800 customers, producing approximately 7,000,000 seedlings.
- While these seedlings are not subject to the sales and use tax, it is estimated that at least \$1,000 would be spent by each customer for the purposes of reforestation and that there are at least 100 other farms that spend \$1,000 for the other farming practices listed in the proposed legislation that are not currently exempt.
- The total taxable sales are estimated to be at least \$900,000 [(800 + 100) x \$1,000] annually.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.

- The decrease in state revenue is estimated to be at least \$60,721 $[(\$900,000 \times 7.0\%) - (\$900,000 \times 7.0\% \times 3.617\%)]$.
- The decrease in local revenue is estimated to be at least \$24,779 $[(\$900,000 \times 2.5\%) + (\$900,000 \times 7.0\% \times 3.617\%)]$.
- Fifty percent of tax savings, or \$42,750 $[(\$60,721 + \$24,779) \times 50\%]$ will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state revenue is estimated to be \$2,884 $[(\$42,750 \times 7.0\%) - (\$42,750 \times 7.0\% \times 3.617\%)]$.
- The recurring increase in local revenue is estimated to be \$1,177 $[(\$42,750 \times 7.0\% \times 3.617\%) + (\$42,750 \times 2.5\%)]$.
- The total net recurring decrease in state revenue is estimated to be at least \$57,837 $(\$60,721 - \$2,884)$.
- The total net recurring decrease in local revenue is estimated to be \$23,602 $(\$24,779 - \$1,177)$.

Tennessee Agricultural Enhancement Program grants:

- Row crop, according to the TAEP online application is limited to corn, cotton, soybeans, and wheat.
- The current required minimum acreage for eligibility is 100 acres.
- Based on a 2017 United States Department of Agriculture survey, there were 1,260 farms with row crops that were between 50 and 99 acres.
- Based on the TAEP 2021 Fact Sheet, the average grant size is approximately \$3,015, with more than 7,300 projects approved for FY20-21.
- It is reasonably assumed that at least one percent of the row crop farms would apply for and receive a grant that is 50 percent smaller than the average due to the size of the farm applying.
- Therefore, the total estimated increase in state expenditures from the Tennessee Department of Agriculture's Agricultural Enhancement Program is estimated to be \$18,995 $[(\$3,015 \times 50\%) \times (1,260 \times 1\%)]$ in FY21-22 and subsequent years.
- The Governor's recommended budget, on page B-308, for FY21-22 includes \$5,500,000 in state funding for the Agricultural Enhancement Program.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Bojan Savic, Interim Executive Director

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